

Housing Authority of the CITY OF KENNER

Kenner, Louisiana

Basic Financial Statements and Independent Auditor's Reports As of and for the Year Ended June 30, 2004 With Supplemental Information Schedules

**WILLIAM DANIEL McCASKILL, CPA
A PROFESSIONAL ACCOUNTING CORPORATION**

**5150 Highway 22, Suite C-14
Mandeville, Louisiana 70471**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 3-16-05

HOUSING AUTHORITY OF THE CITY OF KENNER
Kenner, Louisiana
Basic Financial Statements
As of and for the Fiscal Year Ended June 30, 2004
With Supplemental Information Schedules

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Kenner
Kenner, Louisiana

I have audited the accompanying basic financial statements of the Housing Authority of the City of Kenner (the authority) as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly in all material respects, the financial position of the Housing Authority of the City of Kenner as of June 30, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the basic financial statements, the authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures as of July 1, 2002*. This results in a change in the format and content of the basic financial statements. Additionally, the authority adopted the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana
Independent Auditor's Report, 2004
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated December 14, 2004 on my consideration of the authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be and should be considered in assessing the results of my audit.

The management's discussion and analysis on pages 5 through 12, is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the authority's basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, and is not a required part of the basic financial statements of the authority. The accompanying Financial Data Schedule, required by HUD, is presented for purposes of additional analysis, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards and the Financial Data Schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 William Daniel
McCaskill, CPA, APAC

Digitally signed by William
Daniel McCaskill, CPA, APAC
DN: cn=William Daniel
McCaskill, CPA, APAC, c=US
Date: 2004.12.28 16:27:12
+0800

William Daniel McCaskill, CPA
A Professional Accounting Corporation
December 14, 2004

HOUSING AUTHORITY OF KENNER, LOUISIANA
REQUIRED SUPPLEMENTAL INFORMATION
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2004

Housing Authority of Kenner, Louisiana
Management's Discussion and Analysis (MD&A)
June 30, 2004

The management of the Housing Authority of Kenner, Louisiana presents the following discussion and analysis of the Housing Authority's financial activities for the fiscal year ending June 30, 2004. This represents an overview of financial information. Please read this discussion and analysis in conjunction with the Authority's audited financial statements, which follows.

FINANCIAL HIGHLIGHTS

- The Housing Authority's assets exceeded its liabilities by \$7,017,652 at the close of the fiscal year ended 2004.
 - ✓ Of this amount, \$1,269,546 of unrestricted assets may be used to meet the Housing Authority's ongoing obligations to citizens and creditors. This amount equals 31 percent, equivalent to about 4 months, of the total operating expenses for the fiscal year 2004.
 - ✓ The remainder of \$5,748,106 represents a restriction equal to the net amount invested in land, building, furnishings, leasehold improvements, equipment, and construction in progress.
- The Housing Authority's total net assets decreased by \$374,140, a 5% change from the prior fiscal year 2003. This decrease is attributable to significant decreases in revenues from HUD plus significant increases in various expenses, described in more detail below. Also, the Authority spent \$182,742 on additions to capital assets and construction in progress.
- The Housing Authority continues to operate without the need for debt borrowing.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Housing Authority's basic financial statements. The Housing Authority is a special-purpose government engaged in business-type activities. Accordingly, only fund financial statements are presented as the basic financial statements, comprised of two components: (1) fund financial statements and (2) a series of notes to the financial statements. These provide information about the activities of the Housing Authority as a whole and present a longer-term view of the Housing Authority's finances. This report also contains other supplemental information in addition to the basic financial statements themselves demonstrating how projects funded by HUD have been completed.

Reporting on the Housing Authority as a Whole

One of the most important questions asked about the Authority's finances is, "Is the Housing Authority as a whole better off, or worse off, as a result of the achievements of fiscal year 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Housing Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis* of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Fund Financial Statements

All of the funds of the Housing Authority are reported in a single enterprise fund. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Housing Authority, like other enterprises operated by state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Housing Authority of Kenner, Louisiana
Management's Discussion and Analysis (MD&A)
June 30, 2004

The Housing Authority's enterprise funds use the following accounting approach for Proprietary funds: All of the Housing Authority's services are reported in a single enterprise fund. The focus of proprietary funds is on income measurement, which, together with the maintenance of net assets, is an important financial indicator.

The Housing Authority's financial statements report its net assets and changes in them. One can think of the Housing Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases and decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. One will need to consider other non-financial factors, however, such as the changes in the Authority's occupancy levels or its legal obligations to HUD, to assess the overall health of the Housing Authority.

USING THIS ANNUAL REPORT

The Housing Authority's annual report consists of financial statements that show combined information about the Housing Authority's most significant four funds, the Low Rent Housing Program, Housing Choice Voucher Program, Public Housing Capital Fund Program, and Public and Indian Housing Drug Elimination Program.

The Housing Authority's auditors provided assurance in their independent auditors' report, immediately preceding the MD&A, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

Reporting the Housing Authority's Most Significant Funds

The Housing Authority's financial statements provide detailed information about the most significant funds. Some funds are required to be established by the Department of Housing and Urban Development (HUD). However, the Housing Authority establishes other funds to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using grants and other money.

Housing Authority of Kenner, Louisiana
Management's Discussion and Analysis (MD&A)
June 30, 2004

FINANCIAL ANALYSIS

The Housing Authority's net assets were \$7,017,652 as of June 30, 2004. Of this amount, \$5,748,106 was invested in capital assets, and the remaining \$1,269,546 was unrestricted.

CONDENSED FINANCIAL STATEMENTS

**Condensed Balance Sheet
As of June 30, 2004**

ASSETS

Current Assets	\$1,445,320
Restricted Assets	23,013
Capital Assets, Net of Depreciation	<u>5,748,106</u>
Total Assets	<u>7,216,439</u>

LIABILITIES

Current Liabilities	179,720
Non-Current Liabilities	<u>19,067</u>
Total Liabilities	<u>198,787</u>

NET ASSETS

Invested in Capital Assets	5,748,106
Unrestricted	<u>1,269,546</u>
Total Net Assets	<u>7,017,652</u>
Total Liabilities and Net Assets	<u>7,216,439</u>

Housing Authority of Kenner, Louisiana
 Management's Discussion and Analysis (MD&A)
 June 30, 2004

CONDENSED FINANCIAL STATEMENTS (Continued)

The net assets of these funds decreased by \$374,140, or by 5%, from those of fiscal year 2003, as explained below:

**Condensed Statement of Revenues, Expenses,
 and Changes in Fund Net Assets
 Fiscal Year Ended June 30, 2004**

Operating Revenues

Annual contributions - Housing Assistance Payments	\$ 2,898,985
HUD administrative fee	165,881
Public housing operating subsidy	233,595
Operating grants	18,876
Dwelling rental	169,212

Total operating revenues	3,486,549
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Operating Expenses

Housing Assistance Payments	2,898,985
General and administrative	568,332
Repairs and maintenance	234,334
Utilities	57,475
Tenant services	1,895
Depreciation and amortization	270,713

Total operating expenses	4,031,734
---------------------------------	------------------

Operating loss	(545,185)
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Nonoperating Revenues (Expenses):

Capital grants	120,373
Interest revenue	23,406
Miscellaneous revenues	30,495
Miscellaneous expenses	(3,229)

Total nonoperating revenues (expenses)	171,045
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Change in net assets	(374,140)
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Net assets, beginning of year, as restated	7,391,792
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Net assets, end of year	\$ 7,017,652
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Housing Authority of Kenner, Louisiana
Management's Discussion and Analysis (MD&A)
June 30, 2004

The decrease in net assets of these funds was accompanied by a decrease in unrestricted cash by \$268,018 from fiscal year 2003, primarily due to increased Housing Assistance Payments, decreased HUD grants for capital expenditures, and the purchase and construction of capital assets with cash accumulated from the prior year.

In future years, a comparative analysis of Authority-wide data with the prior year will be presented. (A comparative analysis for the current year is not required by accounting standards followed by the Authority.)

Compared with the prior fiscal year, total revenues decreased \$272,217, or by 7%, due to:

- A 70% decrease in funding from HUD for capital projects, plus an increase of 2% in funding from HUD for operations, for an overall net decrease of 6½% in funding from HUD from fiscal year 2003. The Housing Authority was still in the process of completing projects funded from grants by HUD for fiscal years 2001 through 2003, and will be awarded a new grant submitted during fiscal year 2004.
- Despite a 7% increase in the rentable unit capacity and a 9% increase in occupancy since fiscal year 2003, rental revenues remained flat. Most of this increase was with Section 8 tenants, which tend to reduce the overall tenant revenue since they are subsidized by HUD.
- Other revenues, primarily interest income, increased by 36% from 2003.

Compared with the prior fiscal year, total expenses increased \$237,092, or by 6%, due to a combination of increases in nearly all categories of expense, with a few offsetting decreases:

- An increase of 5% in payments to the landlord for Housing Assistance from HUD.
- An increase of 34% in administrative expenses. Most of this increase was from terminal leave pay to the former Executive Director. In addition, there was a 29% increase in other administrative expenses for staff training, travel, and software upgrades of the computer system to a client-server system.
- An increase by 10% in ordinary repairs and maintenance attributable to a 33% increase in employee wages and benefits. However, materials usage and contract labor was reduced by 13% during the current year, which offset some of the increase.
- An increase of 31% in electricity due to the considerable amount of betterments for more lighting and improved security systems made during 2004, which increased consumption by 34%.
- An increase of 6% in general insurance, stemming from increases in the general public liability coverage because some of the properties are in flood plains.
- The depreciable assets are nearly 60% depreciated, so there was a decrease by 12% in depreciation expense from that of the prior fiscal year.
- In fiscal year 2003, there were casualty losses and extraordinary repairs that were not incurred again during 2004, leading to a reduction of over 81% in this category.

These changes led to a decrease in total assets by \$340,869 and an increase in liabilities by \$72,358, to the end that cash decreased by \$268,443. However, despite these changes, capital assets excluding depreciation actually increased by \$167,527, and there are still over \$7 of current assets covering each dollar of liability.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the Housing Authority had \$10,056,335 invested in a broad range of assets, listed below, and construction in progress from projects funded in 2003. This amount, not including depreciation, represents increases of \$167,527 from the prior year. More detailed information about capital assets appears in the notes to the financial statements.

**Capital Assets,
Net of Accumulated Depreciation
As of June 30, 2004**

Land	\$2,546,972
Buildings	2,677,930
Furniture and Equipment	72,586
Leasehold Improvements	243,199
Construction in Progress	<u>207,418</u>
Total	<u>5,748,106</u>

As of the end of the 2004 fiscal year, the Authority is still in the process of completing HUD grants of \$494,251 obtained during 2002 through 2003 fiscal years. A total remainder of \$355,420 will be received and \$258,069 spent for completing these projects during fiscal year 2005.

Additional major capital projects of \$231,415 to construct a maintenance facility have been submitted to HUD during fiscal year 2004, to be approved sometime in 2005.

Debt

Long-term debt includes accrued annual vacation and sick leave due to employees. The Housing Authority has not incurred any mortgages, leases, or bond indentures for financing capital assets or operations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Housing Authority is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by Federal budget than by local economic conditions. The capital budgets for 2005 fiscal year have already been submitted to HUD for approval and no major changes are expected.

The Capital fund programs are multiple year budgets and have remained relatively stable. Capital Funds are used for the modernization of public housing properties including administrative fees involved in the modernization.

CONTACTING THE HOUSING AUTHORITY'S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, investors, and creditors with a general overview of the Housing Authority's finances, and to show the Housing Authority's accountability for the money it receives. If you have questions about this report, or wish to request additional financial information, contact Lilly Liddell, Executive Director, at the Housing Authority of Kenner, Louisiana telephone number (

Exhibit A

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana
Statement of Net Assets
As of June 30, 2004

ASSETS**Current assets**

Cash and cash equivalents	\$ 1,275,205
Receivables:	
Intergovernmental	97,351
Tenant rents, net of allowance	1,060
Miscellaneous	6,544
Prepaid insurance	61,930
Inventory	3,230

Total current assets	<u>1,445,320</u>
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Restricted assets

Cash and cash equivalents	<u>23,013</u>
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Noncurrent assets

Capital assets:	
Land	2,546,973
Buildings and improvements	6,895,413
Furniture and equipment	397,332
Less accumulated depreciation	<u>(4,091,612)</u>
Capital assets, net of accumulated depreciation	<u>5,748,106</u>

Total assets	<u>7,216,439</u>
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LIABILITIES**Current Liabilities**

Accounts payable	2,985
Accrued wages payable	5,347
Accrued compensated absences	8,048
HUD liability	114,141
Other liability	<u>26,186</u>

Total current liabilities	<u>156,707</u>
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Liabilities Payable from Restricted Assets

Security deposit liability	<u>23,013</u>
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Noncurrent liabilities

Accrued compensated absences	<u>19,067</u>
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Total liabilities	<u>198,787</u>
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NET ASSETS

Invested in capital assets, net of related debt	5,748,106
Restricted	
Unrestricted	<u>1,269,546</u>
Total net assets	<u>\$ 7,017,652</u>

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF THE CITY OF KENNER
Kenner, Louisiana
Statement of Revenues, Expenses, and Changes In Net Assets
For Fiscal Year Ended June 30, 2004

Operating Revenues

Annual contributions - Housing Assistance Payments	\$ 2,898,985
HUD administrative fee	165,881
Public housing operating subsidy	233,595
Operating grants	18,876
Dwelling rental	169,212

Total operating revenues	3,486,549
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Operating Expenses

Housing Assistance Payments	2,898,985
General and administrative	568,332
Repairs and maintenance	234,334
Utilities	57,475
Tenant services	1,895
Depreciation and amortization	270,713

Total operating expenses	4,031,734
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Operating loss	(545,185)
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Nonoperating Revenues (Expenses):

Capital grants	120,373
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Miscellaneous revenues	30,495
Miscellaneous expenses	(3,229)

Total nonoperating revenues (expenses)	171,045
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Change in net assets	(374,140)
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Net assets, beginning of year, as restated	7,391,792
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Net assets, end of year	\$ 7,017,652
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The accompanying notes are an integral part of these financial statements.

Exhibit C

**Housing Authority of the City of Kenner
Kenner, Louisiana
Condensed Statement of Cash Flows
Fiscal Year Ended June 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES	TOTAL
Cash received from tenants	\$ 167,726
Cash payments to suppliers for goods and services	(369,289)
Cash payments to employees for services	(535,226)
Cash provided by non-capital Federal grants	3,299,827
Cash provided by Federal capital grants	26,558
Cash payments to landlords	<u>(2,898,985)</u>
Net cash (used) by operating activities	<u>(309,388)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Other cash receipts	27,322
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net cash transferred (to) from other funds	-
Proceeds from retirement of capital assets	-
Proceeds from casualty loss	34,840
Acquisition of capital assets	(68,307)
Cash provided by Federal capital grants	<u>23,482</u>
Net cash provided (used) by capital and related financing activities	<u>(9,985)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash provided by interest from investments	<u>23,607</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(268,444)</u>
CASH AND CASH EQUIVALENTS, Beginning of Fiscal Year	<u>1,543,649</u>
CASH AND CASH EQUIVALENTS, End of Fiscal Year	<u><u>1,275,205</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
(Loss) from Operations	<u>(545,185)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	270,714
Changes in assets and liabilities:	
Increase in accounts receivable	(1,060)
Increase in prepaid expenses and inventories	(2,699)
Decrease in accounts payable	(6,206)
Decrease in accrued salaries and benefits	(14,167)
Decrease in other liabilities	(10,359)
Decrease in security deposits due to tenants	<u>(425)</u>
Total adjustments	<u>235,798</u>
Net cash (used) by operating activities	<u><u>(309,387)</u></u>

There were no noncash investing, capital or financing transactions.

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Notes to the Financial Statements
For Fiscal Year Ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Reporting Entity

The Housing Authority of The City of Kenner (the authority) was chartered as a public corporation under the laws of the State of Louisiana for the purpose of providing safe and sanitary dwelling accommodations for the residents of the City of Kenner, Louisiana. This formation was contingent upon the approval of the city.

The authority is governed by a Board of Commissioners (Board), which is composed of five members appointed by the city and serve five-year staggered terms. The Board of the authority exercises all powers granted to the authority.

The Board has the final responsibility for:

1. Approving budgets.
2. Exercising control over facilities and properties.
3. Controlling the use of funds generated by the authority
4. Approving the hiring and firing of key personnel
5. Financing improvements.

The financial statements were prepared in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of the elected officials. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete. The authority is financially accountable for a component unit if it appoints a voting majority of the organization's board and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits, or impose specific financial burdens on the authority.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Notes to the Financial Statements, 2004 – Continued

The authority is a related organization of the City of Kenner, Louisiana since the city appoints a voting majority of the authority's governing board. The city is not financially accountable for the authority as it cannot impose its will on the authority and there is no potential for the authority to provide financial benefit to, or impose financial burdens on, the city. Accordingly, the authority is not a component unit of the financial reporting entity of the city.

(2) Basic financial statements

The basic financial statements (i.e. the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the activities of the authority.

(3) Measurement focus, basis of accounting, and financial statement presentation

The basic financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements by the provider have been met.

The accompanying financial statements include the activities of several housing programs subsidized by HUD. A summary of each significant program is provided below.

Low Income Housing Program

The purpose of the low income housing program is to provide decent and affordable housing to low income families at reduced rents. The developments are owned, maintained and managed by the authority. The developments are acquired, developed and modernized under HUD's capital funds programs. Funding of the program operations is provided via federal annual contribution contracts (operating subsidies) and tenant rents (determined as a percentage of family income, adjusted for family composition).

Housing Assistance Programs

The housing assistance payment program utilizes existing privately owned family rental housing units to provide decent and affordable housing to low income families. Funding of the program is provided by federal annual housing assistance contributions from HUD, which provide for the

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Notes to the Financial Statements, 2004 – Continued

difference between the approved landlord contract rent and the rent paid by the tenant.

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The authority, maintains their accounts in accordance with the chart of accounts prescribed by the U.S. Department of Housing and Urban Development (HUD). For financial reporting purposes, the authority reports all of its operations in a single enterprise fund model allowed by GASB Statement No. 29.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed, to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. The authority also has the *option* of following subsequent private-sector guidance, subject to the same limitations. The authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the authority's enterprise fund are HUD Operating Subsidies, Section 8 Housing Assistance Subsidies, Section 8 Management Fees and tenant dwelling rents. Operating expenses include Section 8 Housing Assistance Payments, General and Administrative expenses, repairs and maintenance expenses, utilities, tenant services, depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the authority's policy to use restricted resources first, then unrestricted resources as they are needed.

(4) New Accounting Standards Adopted

During the year ended June 30, 2004, the Authority adopted four new statements of financial accounting standards issued by the Government Accounting Standards Board (GASB):

- Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.
- Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and 34*.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Notes to the Financial Statements, 2004 – Continued

- Statement No. 38, *Certain Financial Statement Note Disclosures*.
- Statement No. 39, *Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*.

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments including special purpose governments such as the Housing Authority of the City of Kenner. This new reporting model requires management to provide a narrative and analysis to the ordinary user called Management's Discussion and Analysis (MD&A). This new reporting model also requires the financial statements to be presented on the entity as a whole (basic financial statements). The most significant changes to the financial statements are the format, classification of information and the classification of fund equity into various classes of net assets.

(5) Assets, liabilities, and net assets

(a) Deposits and Investments

The authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. HUD regulations, state law and the authority's investment policy allow the housing authority to invest in collateralized certificates of deposit and securities backed by the federal government.

Investments for the authority are reported at fair value.

(b) Inventory and prepaid items

All inventories are valued on a first-in first-out (FIFO) basis. Inventories consist of expendable building materials and supplies held for consumption in the course of the authority's operations.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

(c) Restricted Assets

Cash equal to the amount of tenant security deposits is reflected as restricted.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Notes to the Financial Statements, 2004 – Continued

(d) Capital assets

Capital assets, which include land, buildings, improvements, and equipment, are reported in the basic financial statements. Capital assets are defined by the authority as assets with an initial, individual cost of more than \$500 (amount not rounded). Such assets are recorded at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the Authority is depreciated using the straight line method over the following estimated useful lives:

Buildings	33 years
Modernization and improvements	15 years
Furniture and equipment	3-7 years

(e) Due from/to other governments or agencies

Amounts due from/to the authority to/by other governments or agencies are generally for HUD grants or programs under which the services have been provided by the authority. The authority also records an amount due to the various taxing districts within the region for payments in lieu of taxes.

(f) Allowance for doubtful accounts

The authority provides an allowance for doubtful accounts, as needed, for accounts deemed not collectible. At June 30, 2004, the management of the authority had not established an allowance for doubtful accounts.

(g) Compensated absences

It is the authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In accordance with the provisions of GASB Statement No. 16, *"Accounting for Compensated Absences,"* vacation and sick pay is accrued when incurred and reported as a liability.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Notes to the Financial Statements, 2004 – Continued

Employees may accumulate an unlimited number of annual leave hours. Depending on their length of service, employees, other than the Executive Director, may receive payment for up to 300 annual leave hours upon termination or retirement at their then current rate of pay. The Executive Director may receive payment for all hours exceeding the 300 annual leave hours upon termination or retirement at their current rate of pay. Employees are not compensated for unused sick leave. The cost of current leave privileges, computed in accordance with GASB Codification Section C60 is recognized as a current year expense when leave is earned.

(h) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND CASH EQUIVALENTS

See Note A for discussion of policies related to cash and cash equivalents. At June 30, 2004, the authority has cash and cash equivalents (book balances) totaling \$1,298,218 as follows:

Demand deposits	\$405,610
Interest-bearing demand deposits	696,659
Time deposits	195,899
Other	50
Total	<u>\$1,298,218</u>
Unrestricted	\$23,013
Restricted	<u>1,275,205</u>
Total cash and cash equivalents	<u>\$1,298,218</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At June 30, 2004, the authority has \$1,354,660 in deposits (bank balances), categorized below to reflect the amount of risk assumed by the authority.

HOUSING AUTHORITY OF THE CITY OF KENNER
Kenner, Louisiana
Notes to the Financial Statements, 2004 – Continued

GASB Category 1	\$395,899
GASB Category 2	-
GASB Category 3	958,761
	<u>\$1,354,660</u>

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, R.S. 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the authority that the fiscal agent has failed to pay deposited funds upon demand.

NOTE C - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers/ Adjustments</u>	<u>Ending Balance</u>
Land	\$2,546,973	\$	\$ -	\$	\$2,546,973
Building and improvements	6,397,182	84,932	-	446,393	6,928,507
Furniture and equipment	349,707	23,729	-		373,436
Construction in Progress	595,406	74,081	-	(462,068)	207,419
Total	<u>\$9,889,268</u>	<u>\$182,742</u>	<u>\$ -</u>	<u>(\$15,675)</u>	<u>\$10,056,335</u>
Less accumulated depreciation					
Building and improvements	3,732,918	242,744	-	31,719	4,007,381
Furniture and equipment	271,291	27,554	-	2,003	300,848
Total accumulated depreciation	<u>4,004,209</u>	<u>270,298</u>	<u>-</u>	<u>33,722</u>	<u>4,308,229</u>
Net Capital Assets	<u>\$5,885,059</u>	<u>(\$87,556)</u>	<u>-</u>	<u>(\$49,397)</u>	<u>\$5,748,106</u>

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Notes to the Financial Statements, 2004 – Continued

NOTE D – CONSTRUCTION COMMITMENTS

The authority has active construction projects as of June 30, 2004. At year end, the commitments with contractors are as follows:

Projects	Expended to Date	Remaining Commitment
CFP – 2002	\$183,495	\$44,325
CFP - 2003	25,724	151,960
Total	<u>\$209,219</u>	<u>\$196,285</u>

NOTE E – PRIOR PERIOD ADJUSTMENTS AND CORRECTIONS OF ERRORS

The Low Rent program reclassified prior year expenses of \$5,604 erroneously charged to the wrong program. The Housing Choice Vouchers recorded a recapture of operating reserves in the amount of \$ 44,798 as of June 30, 2003. The capital fund program reclassified hard costs of \$107 charged to the incorrect program.

NOTE F - RETIREMENT PLAN

The authority participates in the Housing-Renewal and Local Agency Retirement Plan, administered by Broussard, Bush & Hurst, which is a defined contribution plan. The plan consists of employees of various local and regional housing authorities, urban renewal agencies, and other similar organizations. Through this plan, the authority provides pension benefits for all of its full-time employees. All regular and full-time employees are eligible to participate in the plan on the first day of the month after completing six months of continuous and uninterrupted employment. Plan provisions and changes to the plan contributions are determined by the Board of the authority.

Under a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The employer is required to make monthly contributions equal to 6.8 percent of each participant's basic (excludes overtime) compensation. Employees are required to contribute 5 percent of their annual covered salary.

The authority's contribution for each employee and income allocated to the employee's account are fully vested after five years of continuous service. The authority's contributions and interest forfeited by employees who leave employment before five years of service are used to offset future contributions of the authority.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Notes to the Financial Statements, 2004 – Continued

Normal retirement date shall be the first day of the month following the employee's sixty-fifth birthday or after ten years of participation in the plan.

The authority's total payroll for the year ended June 30, 2004, was \$307,890. The authority's contributions were calculated using the base salary amount of \$246,157. The authority made the required contributions of \$16,158 for the year ended June 30, 2004.

NOTE G – RISK MANAGEMENT

The authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The authority's risk management program encompasses obtaining property and liability insurance.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, there have been no significant claims that have exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE H - FEDERAL COMPLIANCE CONTINGENCIES

The authority is subject to possible examinations by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the entity in the current and prior years. These examinations may result in required refund by the entity to federal grantors and/or program beneficiaries.

Schedule 1

Housing Authority of the City of Kenner
Kenner, Louisiana
Financial Data Schedule (Continued)
For the Fiscal Year Ended June 30, 2004

PHA: LA012 FYED: 06/30/2004

Line Item No.	Account Description	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$1,275,205	\$0	\$0	\$0	\$1,275,205
114	Cash - Tenant Security Deposits	\$23,013	\$0	\$0	\$0	\$23,013
100	Total Cash	\$1,298,218	\$0	\$0	\$0	\$1,298,218
122	Accounts Receivable - HUD Other Projects	\$19,672	\$6,484	\$0	\$71,195	\$97,351
125	Accounts Receivable - Miscellaneous	\$6,418	\$0	\$0	\$0	\$6,418
126	Accounts Receivable - Tenants - Dwelling Rents	\$1,060	\$0	\$0	\$0	\$1,060
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$0	\$0	\$0	\$0
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0
129	Accrued Interest Receivable	\$126	\$0	\$0	\$0	\$126
120	Total Receivables, net of allowances for doubtful accounts	\$27,276	\$6,484	\$0	\$71,195	\$104,955
142	Prepaid Expenses and Other Assets	\$61,930	\$0	\$0	\$0	\$61,930
143	Inventories	\$3,230	\$0	\$0	\$0	\$3,230
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$77,679	\$0	\$513,979	\$0	\$591,658
150	Total Current Assets	\$1,468,333	\$6,484	\$513,979	\$71,195	\$2,059,991
161	Land	\$2,475,572	\$0	\$71,401	\$0	\$2,546,973
162	Buildings	\$6,236,004	\$0	\$0	\$0	\$6,236,004
163	Furniture, Equipment & Machinery - Dwellings	\$167,182	\$0	\$0	\$1,800	\$168,982
164	Furniture, Equipment & Machinery - Administration	\$182,937	\$0	\$21,518	\$0	\$204,455
165	Leasehold Improvements	\$666,808	\$25,695	\$0	\$0	\$692,503
166	Accumulated Depreciation	\$-4,299,030	\$-1,713	\$-7,229	\$-257	\$-4,308,229
167	Construction In Progress	\$0	\$0	\$0	\$207,418	\$207,418
160	Total Fixed Assets, Net of Accumulated Depreciation	\$5,429,473	\$23,982	\$85,690	\$208,961	\$5,748,106
180	Total Non-Current Assets	\$5,429,473	\$23,982	\$85,690	\$208,961	\$5,748,106
190	Total Assets	\$6,897,806	\$30,466	\$599,669	\$280,156	\$7,808,097

Schedule 1

Housing Authority of the City of Kenner
Kenner, Louisiana
Financial Data Schedule (Continued)
For the Fiscal Year Ended June 30, 2004

PHA: LA012 FYED: 06/30/2004

Line Item No.	Account Description	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$2,985	\$0	\$0	\$0	\$2,985
321	Accrued Wage/Payroll Taxes Payable	\$5,347	\$0	\$0	\$0	\$5,347
322	Accrued Compensated Absences - Current Portion	\$3,311	\$0	\$4,737	\$0	\$8,048
331	Accounts Payable - HUD PHA Programs	\$0	\$0	\$114,141	\$0	\$114,141
333	Accounts Payable - Other Government	\$26,186	\$0	\$0	\$0	\$26,186
341	Tenant Security Deposits	\$23,013	\$0	\$0	\$0	\$23,013
347	Interprogram Due To	\$513,979	\$6,484	\$0	\$71,195	\$591,658
310	Total Current Liabilities	\$574,821	\$6,484	\$118,878	\$71,195	\$771,378
354	Accrued Compensated Absences - Non Current	\$7,665	\$0	\$11,402	\$0	\$19,067
350	Total Noncurrent Liabilities	\$7,665	\$0	\$11,402	\$0	\$19,067
300	Total Liabilities	\$582,486	\$6,484	\$130,280	\$71,195	\$790,445
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$5,429,473	\$23,982	\$85,690	\$208,961	\$5,748,106
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$885,847	\$0	\$383,699	\$0	\$1,269,546
513	Total Equity/Net Assets	\$6,315,320	\$23,982	\$469,389	\$208,961	\$7,017,652
600	Total Liabilities and Equity/Net Assets	\$6,897,806	\$30,466	\$599,669	\$280,156	\$7,808,097

Schedule 1

Housing Authority of the City of Kenner
Kenner, Louisiana
Financial Data Schedule (Continued)
For the Fiscal Year Ended June 30, 2004

PHA: LA012 FYED: 06/30/2004

Line Item No.	Account Description	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$169,212	\$0	\$0	\$0	\$169,212
704	Tenant Revenue - Other	\$27,321	\$0	\$0	\$0	\$27,321
705	Total Tenant Revenue	\$196,533	\$0	\$0	\$0	\$196,533
706	HUD PHA Operating Grants	\$233,595	\$9,625	\$3,064,866	\$9,251	\$3,317,337
706.1	Capital Grants	\$0	\$25,695	\$0	\$94,678	\$120,373
711	Investment Income - Unrestricted	\$6,456	\$0	\$16,950	\$0	\$23,406
715	Other Revenue	\$3,174	\$0	\$0	\$0	\$3,174
700	Total Revenue	\$439,758	\$35,320	\$3,081,816	\$103,929	\$3,660,823

Schedule 1

Housing Authority of the City of Kenner
Kenner, Louisiana
Financial Data Schedule (Continued)
For the Fiscal Year Ended June 30, 2004

PHA: LA012 FYED: 06/30/2004

Line Item No.	Account Description	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
911	Administrative Salaries	\$37,058	\$0	\$196,408	\$0	\$233,466
912	Auditing Fees	\$3,076	\$0	\$6,479	\$0	\$9,555
914	Compensated Absences	\$-212	\$0	\$-2,657	\$0	\$-2,869
915	Employee Benefit Contributions - Administrative	\$33,874	\$0	\$114,331	\$0	\$148,205
916	Other Operating - Administrative	\$18,367	\$9,625	\$50,272	\$201	\$78,465
924	Tenant Services - Other	\$1,895	\$0	\$0	\$0	\$1,895
931	Water	\$9,538	\$0	\$0	\$0	\$9,538
932	Electricity	\$15,440	\$0	\$0	\$0	\$15,440
933	Gas	\$19,116	\$0	\$0	\$0	\$19,116
938	Other Utilities Expense	\$13,381	\$0	\$0	\$0	\$13,381
941	Ordinary Maintenance and Operations - Labor	\$74,424	\$0	\$0	\$0	\$74,424
942	Ordinary Maintenance and Operations - Materials and Other	\$33,264	\$0	\$0	\$0	\$33,264
943	Ordinary Maintenance and Operations - Contract Costs	\$58,813	\$0	\$0	\$0	\$58,813
945	Employee Benefit Contributions - Ordinary Maintenance	\$67,832	\$0	\$0	\$0	\$67,832
961	Insurance Premiums	\$63,121	\$0	\$24,126	\$0	\$87,247
962	Other General Expenses	\$0	\$0	\$1,375	\$0	\$1,375
963	Payments in Lieu of Taxes	\$12,859	\$0	\$0	\$0	\$12,859
964	Bad Debt - Tenant Rents	\$30	\$0	\$0	\$0	\$30
969	Total Operating Expenses	\$461,676	\$9,625	\$390,334	\$201	\$862,036
970	Excess Operating Revenue over Operating Expenses	\$-22,118	\$25,695	\$2,691,482	\$103,728	\$2,798,787
972	Casualty Losses - Non-Capitalized	\$3,229	\$0	\$0	\$0	\$3,229
973	Housing Assistance Payments	\$0	\$0	\$2,898,985	\$0	\$2,898,985
974	Depreciation Expense	\$265,071	\$1,713	\$3,672	\$257	\$270,713
900	Total Expenses	\$730,176	\$11,338	\$3,292,991	\$458	\$4,034,963
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$-290,418	\$23,982	\$-211,175	\$103,471	\$-374,140

Schedule 1

Housing Authority of the City of Kenner
Kenner, Louisiana
Financial Data Schedule (Continued)
For the Fiscal Year Ended June 30, 2004

PHA: LA012 FYED: 06/30/2004

Line Item No.	Account Description	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$6,120,808	\$8,019	\$725,362	\$576,690	\$7,430,879
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$484,930	\$-8,019	\$-44,798	\$-471,200	\$-39,087
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$0	\$3,071,279	\$0	\$3,071,279
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$0	\$48,080	\$0	\$48,080
1116	Total Annual Contributions Available	\$0	\$0	\$3,119,359	\$0	\$3,119,359
1120	Unit Months Available	1,644	0	6,864	0	8,508
1121	Number of Unit Months Leased	1,440	0	6,559	0	7,999

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Schedule of Expenditures of Federal Awards

For Fiscal Year Ended June 30, 2004

<i>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</i>	<i>CFDA #</i>	<i>Federal Expenditures</i>
U.S. Department of Housing and Urban Development:		
Direct Programs:		
Low Rent Public Housing	14.850a	233,595
Public and Indian Housing Drug Elimination Program	14.854	35,320
Housing Choice Voucher Program	14.871	3,064,866
Public Housing Capital Fund Program	14.872	103,929
Total Federal Expenditures		<u>\$ 3,437,710</u>

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the housing authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Housing Authority of the City of Kenner
Kenner, Louisiana

I have audited the financial statements of the Housing Authority of the City of Kenner (the authority), as of and for the year ended June 30, 2004 and have issued my report thereon dated December 14, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-3.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana
Report on Internal Control...*Government*
Auditing Standards, 2004
Page Two

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 2004-1 and 2004-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-3.

This report is intended solely for the information and use of the board of commissioners and management, others within the organization, the Louisiana Legislative Auditor and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

✓ William Daniel McCaskill, CPA, APAC
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DN: c=United States, o=William Daniel McCaskill, CPA, APAC, cn=William Daniel McCaskill, CPA, APAC, c=US
Date: 2004.12.29 10:28:01 -0500

William Daniel McCaskill, CPA
A Professional Accounting Corporation
December 14, 2004

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Housing Authority of the City of Kenner
Kenner, Louisiana

Compliance

I have audited the compliance of the Housing Authority of the City of Kenner (the authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the authority's management. My responsibility is to express an opinion on the authority's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the authority's compliance with those requirements.

Housing Authority of the City of Kenner
Kenner, Louisiana
Independent Auditor's Report
on Compliance...A-133, 2004
Page Two

As described in items 2004-1, 2004-2 and 2004-3 in the accompanying schedule of findings and questioned costs, the authority did not comply with requirements regarding allowable costs and reporting that are applicable to its Low Rent and Housing Choice Vouchers programs. Compliance with such requirements is necessary, in my opinion, for the authority to comply with the requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the authority, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2004-1, 2004-2 and 2004-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not

Housing Authority of the City of Kenner
Kenner, Louisiana
Kenner, Mississippi
Independent Auditor's Report
on Compliance...A-133, 2004
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necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 2004-1, 2004-2 and 2004-3 to be material weaknesses.

This report is intended solely for the information and use of the board of commissioners and management, others within the organization, the Louisiana Legislative Auditor and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

 **William Daniel
McCaskill, CPA, APAC**
Signature Valid

Digitally signed by William
Daniel McCaskill, CPA,
APAC
DN: cn=William Daniel
McCaskill, CPA, APAC, o=US
Date: 2004.12.28 16:26:17
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William Daniel McCaskill, CPA
A Professional Accounting Corporation
December 14, 2004

Schedule 3

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Schedule of Compensation Paid to Board Members

Fiscal Year Ended June 30, 2004

Board members serve without compensation.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

**Schedule of Prior Year Audit Findings
Fiscal Year Ended June 30, 2004**

Finding 2003-1

The prior audit included a finding that the PHA violated HUD regulations because it did not ensure adequate Federal Securities pledged for bank balances in excess of the FDIC coverage.

This finding is not repeated.

Finding 2003-2

The PHA was unable to document an adequate supervisory sample for SEMAP indicators.

This finding is not repeated.

Finding 2003-3

The test of 40 disbursements produced deficiencies such as: disbursements did not include proper supporting documentation and disbursements were paid from statements rather than vendor invoices.

This finding is repeated as finding 2004-1.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Schedule of Current Audit Findings and Questioned Costs

Fiscal Year Ended June 30, 2004

Summary Schedule of Auditor's Results:

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the authority.
2. Two reportable conditions disclosed during the audit of the financial statements are reported in the Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*. Both of these conditions are reported as a material weakness.
3. Two instances of noncompliance material to the financial statements of the authority, that is required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. The auditor's report on compliance for the major federal award programs for the authority expresses a qualified opinion on all major federal programs.
5. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
6. The programs tested as major programs included:
 1. 14.850 Low Rent Public Housing
 2. 14.871 Housing Choice Vouchers
7. The threshold used for distinguishing between Type A and B programs was \$300,000.
8. The authority did not qualify as a low-risk auditee.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Schedule of Current Audit Findings and Questioned Costs (Continued)

Fiscal Year Ended June 30, 2004

FINDINGS AND QUESTIONED COST - FINANCIAL STATEMENT AUDIT

FINDING 2004-1 and 2004-3

See Findings and Questioned Costs – Major Federal Awards Programs Audit

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

Finding 2004-1

Programs: Low Rent Public Housing and Housing Choice Vouchers Program

Condition: Our audit test of 40 disbursements totaling \$32,022 produced the following deficiencies:

8 that did not include evidence that goods were received
2 that were paid off of a vendor statement rather than an original vendor invoice
2 that were not correctly charged to the proper account.

Criteria: Per OMB Circular A133, all disbursements should be:

- Supported by evidence the goods were received, i.e signed for by the authorized staff.
- Paid from original vendor invoices rather than vendor statements
- Recorded in the proper account(s)

Cause: PHA staff has not been adequately following proper disbursement internal controls.

Effect: Disbursements are authorized without the proper support and without the proper consideration of allowable costs. Classification of expenses is improper.

Amount of Questioned Costs: None

Perspective Information: During the fiscal year the PHA transacted approximately 1150 similar disbursements.

Recommendation: I recommend that whoever is authorized to sign checks refuses to do so unless all documentation required by proper internal controls is attached.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Schedule of Current Audit Findings and Questioned Costs (Continued)

Fiscal Year Ended June 30, 2004

PHA Response: See Corrective Action Plan

FINDING 2004-2

Program: Low Rent Public Housing

Condition: The supporting documentation provided by the PHA did not agree with the entries made on the Management Assessment Report for sub-indicator 3, Work Orders.

Criteria: The Management Assessment Report is a tool utilized by HUD to measure housing agencies' management performance through the management operations indicators of it's PHAs. The OMB Compliance Supplement identifies key line items for testing.

Cause: The PHA did not verify the mathematical accuracy of the information provided by the staff. Additionally, it is noted that maintenance staff does not record and monitor work order usage for the MASS reporting until after the fiscal year ends.

Effect: Errors noted included the following:

W10500 Total number of non emergency work orders

W10600 Total number of calendar days it took to complete non emergency work orders

W10800 Average completion days

For the above responses the recorded amounts on the MASS do not agree with supporting documentation

A11600 Total number of buildings where all systems were used in accordance with the UPCS

A11700 *The number of buildings and projects where necessary repairs were completed to comply with UPCS either during the inspection, issued work orders for the repairs, or referred the deficiency to the current year's or next year's Capital Fund program*

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Schedule of Current Audit Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2004

For the above 2 responses supporting documentation was not provided.

Amount of Questioned Costs: None

Perspective Information: The Management Assessment Report includes six sub indicators.

Recommendation: I recommend that the PHA staff adequately document every entry and verify the mathematical accuracy of the supporting documents. Also, I recommend that PHA staff complete interim MASS reporting and provide it to top management on a quarterly basis during the year so the reporting can be more valuable to top management rather than compile it after FYE.

PHA Response: See Corrective Action Plan

FINDING 2004-3

Program: Low Rent Public Housing and Housing Choice Vouchers

Condition:

- During fiscal year 2004, upon retirement, the executive director was compensated for approximately 4,032 hours of accrued leave in the amount of \$143,553. The PHA compensated him for leave hours in excess of the hours reflected in the PHA's policy of 300 maximum hours. The PHA consulted an attorney concerning the propriety of this payment who issued a written opinion that it was appropriate since the board of commissioners approved of this exception for the PHA's executive director.
 - No liability was accrued in prior years for the hours in excess of 300.
 - The summary of payment showed 611.27 days, or 4,890 hours accrued. PHA staff calculated the liability using a method based on the number of days accrued as \$143,553. A recalculation of the liability using the number of hours method results in a potential additional liability of \$30,537.
- The PHA was unable to provide proper leave records to support the 611.27 days indicated on the summary. Upon our request for leave records to support the hours, we were told that the total hours were calculated as hours earned based on the number of years the executive director had worked for the PHA and on the assumption that he had actually not taken leave during his employment. The reasoning was that any time actually taken was offset by

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Schedule of Current Audit Findings and Questioned Costs (Continued)

Fiscal Year Ended June 30, 2004

hours that the executive director worked in excess of regular hours. However, no record of leave taken and/or offset by additional work was provided.

- The amount withheld for FICA and Medicare from the former executive director's payment appears to be incorrect because PHA staff did not take into account the maximum wages taxed per year of \$ 87,900.
- The summary of leave balances supporting the amount of accrued leave as of June 30, 2004 indicated a balance in excess of 300 hours for the interim executive director. No liability was accrued for the excess hours. The PHA's position is that the board approved paying accrued leave in excess of 300 hours for anyone filling the executive director position, not just the former executive director.
- Leave records provided for the interim executive director do not reflect that she has taken leave off.

Criteria:

Proper internal controls include the maintenance of leave records that include hours earned, hours taken and an ending accrued balance per pay period. The hours taken should be supported by leave requests approved by a supervisor.

Leave accrued should agree with the amount per pay period recited in the PHA's policy.

Termination pay and withholdings should be properly documented and calculated.

Perspective Information:

As of June 30, 2004, the authority has nine employees. The liability for accrued compensated absences was \$27,115.

Cause:

The condition was caused by lack of proper internal controls.

HOUSING AUTHORITY OF THE CITY OF KENNER

Kenner, Louisiana

Schedule of Current Audit Findings and Questioned Costs (Continued)

Fiscal Year Ended June 30, 2004

Effect:

- The PHA has a potential receivable and payable. The result cannot be determined without verifying the number of actual hours accrued at the time of the executive director's retirement. Per accounting standards, the potential receivable is not accrued or disclosed. The \$30,537 potential additional liability is disclosed but not accrued because it is not reasonably estimable until the number of hours accrued is validated or revised.
- An adjusting journal entry was required to adjust the prior year liability to the amount actually paid.
- The \$143,553 paid to the former executive director is a questioned cost for the programs charged because of the lack of adequate supporting documentation provided.
- The PHA appears to have over-withheld and overpaid the employer's portion of FICA on the former executive director's payment.

Amount of Questioned Costs:

\$143,553

Recommendation:

I recommend that the PHA:

- Reconstruct leave records for the former executive director, the interim executive director and all personnel currently employed by the authority.
- Depending on the outcome of the reconstruction, collect any overpayment or remit any underpayment from/to the former executive director.
- File an amended return to the IRS to correct the FICA withheld and paid on the former executive director's payment, if necessary.

Also during the year, an additional employee retired and was compensated for accrued leave. Due to materiality, this payment was not tested by the auditor. I recommend that the PHA consider the accuracy of this payment after reconstructing leave records and that the PHA take any appropriate action indicated by the results of the review.

HOUSING AUTHORITY OF THE CITY OF KENNER

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Corrective Action Plan for Current Year Findings
For Fiscal Year Ended June 30, 2004

FINDINGS—FINANCIAL STATEMENTS AUDIT

2004-1

Action Planned:

We will refuse to sign any check if all appropriate supporting documentation is not provided.

Person Responsible: Lillie Liddell

Anticipated Completion Date: December 15, 2004

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

2004-2

Action Planned:

We will have appropriate staff compile MASS reporting data on a quarterly basis beginning with the quarter ending 12-31-2004 and have top management review the data and use it to consider any changes to operations in order to improve the scores during the fiscal year. We will check the validity of the responses on a test basis.

Person Responsible: Lillie Liddell

Anticipated Completion Date: January 31, 2005

2004-3

Action Planned:

We will reconstruct leave records for all staff members where they are inadequate. We will recalculate the termination pay and withholding of the former executive director and take the appropriate action to correct any mistakes. We will ensure that future leave records for all staff correctly capture data for leave accrued, leave taken, and the accumulated leave balance.

Person Responsible: Lillie Liddell

Anticipated Completion Date: January 31, 2005